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UNCLAS SECTION 01 OF 03 DOHA 000861

SIPDIS

STATE FOR NEA/ARPI, INR/EC AND EB/CBA
DEPARTMENT PASS TO USTR-JBUNTIN
USDOC FOR 4520/ITA/MAC/ONE-MTALAAAT AND
4520/ITA/MAC/AMESA/OME-CLOUSTAUNAU
USDOE FOR GEORGE PERSON AND GINA ERICKSON

E.O. 12958: N/A

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SUBJECT: DOHA SECURITIES MARKET OPENING TO FOREIGN
INVESTMENT FUELS GROWTH AND CONCERNS

REF: (A) 04 DOHA 338 (B) 04 DOHA 54

1. Summary. On April 3 the Doha Securities Market (DSM) opened up to allow greater yet limited foreign investment in all sectors of the economy. The opening of the DSM has created a lot of excitement and speculation among Qatari investors who see opportunities to create wealth. However, foreign investors have been reluctant to invest in the DSM due to several concerns regarding legal protection and transparency of information. There are also concerns among Qataris that local investors could be adversely impacted due to their lack of understanding about investing in the stock market. End Summary.

EMIR'S VISION FOR DSM

2. The DSM is an important part of Emir Sheikh Hamad bin Khalifa Al-Thani's vision for the Qatari economy. The Emir is focused on developing a modern, diverse and dynamic economy that creates wealth for the state and its citizens while reducing dependence on the government, provides business and employment opportunities for Qataris, and attracts foreign investment (Ref A). The DSM was established in 1995 by Emiri decree to privatize state companies and to allow Qataris to become actively involved in Qatar's economic development and prosperity.

GROWTH OF DSM

3. In 1997, the DSM opened with an initial market capitalization of Qatari Riyal (QR) 5 billion or \$1.4 billion (Ref B). According to DSM statistics, market capitalization reached \$90 billion at the end of March 2005. The daily trading volume has grown from QR 5 million (\$1.4 billion) in 1997 to QR 500 million (\$138 million) during the first three months of 2005. From January to March 2005 the DSM share price index grew 45%. In 2004, the DSM appreciated 65% in comparison to 2003. In 1997, there were 17 companies listed when the DSM opened and now there are 31 companies being traded in primarily four sectors: banking, insurance, cross-border services (GOQ monopoly Qatar Telecom or Q-Tel), and industry dominated by state-owned companies like Qatar Steel Company (QASCO), Qatar Petrochemical Company (QAPCO), Qatar Fuel Additives Company (QAFAC), Qatar Fertilizer Company (QAFCO) and Qatar Vinyl Company (QAVCO), which are collectively known as Industries Qatar.

REASONS BEHIND DSM GROWTH AND SPECULATION

4. Qatar's booming economy, the GOQ's ambitious economic development plans, foreign investment in the hydrocarbons sector, excess liquidity in the region and speculation are the reasons behind the growth of the DSM. Qatar's GDP growth has averaged about 15% between 1999-2003. In 2004, GDP growth was estimated at 20.5% or 9% in real GDP terms indexed for inflation. The economic growth has been fueled by high oil prices, the diversification of the energy sector, particularly the development of Qatar's natural gas reserves, and a boom in construction, infrastructure and real estate development.

5. Qatar has an ambitious development strategy which has attracted more investment in the DSM. The GOQ plans to invest over \$50 billion in the next ten years in roads and infrastructure development, health and sanitation projects and public utilities. It is estimated the GOQ will invest \$150 billion in the energy and industrial sectors. The GOQ is also providing incentives to the Qatari private sector to invest in housing, office and real estate development, retail, entertainment and tourism.

6. Qatar has attracted an estimated \$100 billion of investment in the energy sector, with approximately \$60-70 million coming from U.S. energy companies. It is estimated that Qatar will invest and attract over \$50 billion in the energy sector in the next ten years.

7. Excess liquidity is another factor behind the DSM's growth. The September 11, 2001 terrorist attacks, Qatar's booming economy and ambitious economic development plans have

enticed Qataris and other Arab nationals to invest in the region. A significant number of Qatari companies and individuals and profiting from the economic growth in Qatar and the region. They see the DSM as an opportunity to create additional wealth.

DSM OPENS TO FOREIGN INVESTORS

18. The opportunity for limited foreign investment in the DSM is arguably the primary reason for the DSM's growth and market speculation. Local economists, financial analysts and stock brokers said the January 11, 2005 announcement allowing limited foreign investment in the DSM created excitement and triggered speculation throughout Qatar. Many Qataris invested huge sums of money right after the announcement in anticipation of foreigners and non-Qatari residents eagerly investing in the DSM. There are stories that some Qataris quit their jobs to devote their time to investing in the DSM.

19. On April 3, Law No. 31/2004 was enacted to allow foreign participation in the DSM. Foreigners and non-Qatari residents are eligible to buy Qatari equities limited to a 25% cap of the listed company's shares open for trading. Foreign investors will not be allowed to access the primary market (initial public offerings or IPO). GOQ officials said this cautious approach is to protect the market from heavy speculation which occurred in other GCC markets and resulted in heavy losses to local investors. In addition, the GOQ does not want foreign domination of the Qatari capital market.

FOREIGN INVESTORS CAUTIOUS ABOUT DSM

110. Since the DSM opened to foreign investment, international companies and non-Qatari residents have not rushed in to buy shares as anticipated by Qataris. The lack of anticipated foreign investment has caused corrections in the stock market. The GOQ and private industry reported the stock market has lost almost 26% of its peak value, which on May 1 was QR 85 billion (\$24 billion dollars). This is a significant amount of money given Qatar's estimated GDP for 2005 is \$23 billion based on a conservative oil price of \$19 barrels per day. Financial analysts predict the downward trend in the DSM will continue in the immediate short term, noting the market is currently trading on thinner volumes in comparison to the first three months of 2005.

REASONS BEHIND FOREIGN INVESTOR CAUTION: NO PUBLIC INFORMATION ON DSM REGULATIONS

111. Several Amcits, non-Qatari residents and foreign company representatives have expressed numerous concerns about the DSM. The most common concern mentioned by foreign investors is there is no clear understanding of the laws regulating the DSM. The GOQ has not yet published the implementing regulations for the DSM as it pertains to foreign investment. Without clear "rules of the game," many foreigners are reluctant to invest in the DSM.

INAPPROPRIATE REGULATOR FOR DSM

112. A second concern raised by foreigners is uncertainty about which GOQ agency is responsible for regulating the DSM. Currently, the Ministry of Economy and Commerce (MOEC) acts as the regulator of the DSM. This is a serious concern for foreign investors because they believe the MOEC is not the appropriate GOQ entity to regulate the stock market. In 2004, Econoff met with DSM surveillance and internal audit manager who said the Qatar Central Bank would replace the MOEC as DSM regulator (Ref B).

NO CUSTODY LAW

113. A big concern expressed by Amcits and Europeans is that there is no custody law in Qatar. U.S. companies and informed foreign investors said the United States, United Kingdom and other European countries have custody laws which separate the financial entities (or custodians) that receive investors' capital from the stock brokers. Qatar does not have a custody law which requires this separation and therefore the stock brokers directly receive investment capital. Many foreigners expressed serious reservations about investing in a stock market with such risks.

LACK OF PUBLIC INFORMATION ABOUT COMPANIES TRADED ON DSM

114. Public information on DSM-listed companies is not readily available in Qatar. While the GOQ requires government-owned companies to publish their quarterly and annual results as well as hold shareholders meetings, the lack of transparency with regard to statistical data and laws remains a concern for foreign investors. Some foreign investors have stated that many well-positioned Qataris engage in information sharing amongst themselves, which non-Qatari residents and international companies argue is a form of insider trading.

A number of potential U.S. and European investors have said the GOQ needs to establish clear regulations to require all publicly traded companies to make their information more accessible to help investors make good decisions.

LIMITS ON INVESTMENT

¶15. Some foreign investors expressed disappointment with the 25% limit on foreign investment and prohibition to access the primary market or IPOs. They argue that if Qatar is serious about attracting foreign investment, the GOQ must provide better incentives and opportunities.

RISING U.S. INTEREST RATES

¶16. Given that the Qatari Riyal is pegged to the dollar, and U.S. interest rates are rising, some investors see this as a disincentive to invest in the DSM. Rising U.S. interest rates have caused some foreign investors to put their money into bank deposits, which is currently considered as a safer use of their money than the risks of stock market investment.

ENHANCING INVESTOR EDUCATION AMONG QATARIS

¶17. Non-Qatari residents have expressed concerns about the lack of understanding of the stock market and potential risks to investors, particularly Qataris. They said many Qataris who are new players in stock market investing are taking out consumer loans, mortgaging their homes or quitting their jobs. They noted that if the Emir wants to create wealth for Qataris, the GOQ needs to do more to educate the people on the fundamentals of the stock market investment. One U.S. company explained that many Qataris have become victims to the recent corrections of the DSM, losing huge amounts of money from imprudent investments based on speculative information from friends or rumors in the market. Some foreigners have opined that unless the GOQ provides serious investor education to its citizens, a significant number of Qataris will be adversely affected which would be contrary to the Emir's goal of wealth creation.

¶18. Comment: The opening of the DSM to foreign investment is a positive step in implementing the Emir's vision of creating wealth for Qatar and Qatari citizens while attracting foreign investment. There are legitimate concerns that must be addressed by the GOQ in order to attract greater foreign investment in the DSM, in addition to diversifying and enhancing Qatar's economic development and growth in a sound, prudent manner for Qataris. Foreign investors realize the DSM is a new entity and patience is required while Qataris and non-Qataris learn about the laws, regulations and basic rules for stock market investing. What remains to be seen is if the GOQ will make the necessary changes and improvements to the DSM for Qataris and non-Qataris alike to ensure full implementation of the Emir's vision. End Summary.

UNTERMAYER